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June 13, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *CC Docket No. 94-1, Price Caps; File Nos. W-P-C 6913, 6914, 6915, and 6916, Applications of Pacific Bell for Authority under Section 214(a) of the Communications Act*

Today, John A. Gueldner, Vice President-Regulatory, Pacific Bell, Jo Ann Goddard, Celia Nogales, and I from Pacific Telesis Group, met with Commissioner Ness and Gregory Vogt to discuss our positions in the above-referenced proceedings as set forth in our pleadings and the attached documents. Please associate this material with the above-referenced proceeding.

I am submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Attachments

cc: Commissioner Ness
Gregory Vogt

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PACIFIC BELL

PRICE CAPS REFORM - CC DOCKET NO. 94-1

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- A PURE PRICE CAPS MECHANISM IS NECESSARY WITH COMPETITION
 - A Properly-Structured Price Cap Framework Provides the Best Protection Against Anti-Competitive Behavior
 - Eliminate Productivity Adjustments
 - Eliminate Sharing and Lower Formula Adjustment Backstops
 - Increases Efficiency Incentives
 - Backstops Penalize Infrastructure Investment
- REMOVE COMPETITIVE SERVICES FROM PRICE CAPS
 - Permit Contract-Based Tariffs
 - Prices will be Controlled by Market Forces
 - Removal is Consistent with the Evolution of AT&T's Price Cap Plan
 - Meets the Commission's Goal of Fair Competition
- WITH MODIFICATION, THE CURRENT PRICE CAP PLAN IS GENERALLY APPROPRIATE FOR SERVICES WHICH ARE NOT YET FULLY COMPETITIVE
 - Proliferation of Bands has Moved LECs away from Incentive Regulation
 - Only Minimal Baskets and Bands are Necessary to Address Potential Concerns of Cross Subsidy
 - Services with Similar Levels of Competition Should be Grouped Together
 - New Services Should be Permitted on Shorter Notice, without Waivers and with Less Cost Support
 - No Rate of Return Adjustments are Appropriate
 - Conflicts with Principles of Incentive Regulation
 - Cost of Capital Data Sponsored by Opponents do not Support any Adjustments

- INCREASED PRICING FLEXIBILITY IS NECESSARY GIVEN COMPETITIVE ALTERNATIVES AVAILABLE TO OUR CUSTOMERS
 - Need for an Adaptive Mechanism -- One Size does not Fit All
 - Current Price "Umbrellas"
 - Permit Anti-Competitive Behavior by Others
 - Given IEC Oligopoly, Access Price Reductions are not Passed on to final Consumers
 - Permit "Cherry Picking"
 - Jeopardizes the Commission's Universal Service Goals
 - Need to Retain Share of Profitable Markets until Universal Service Reform

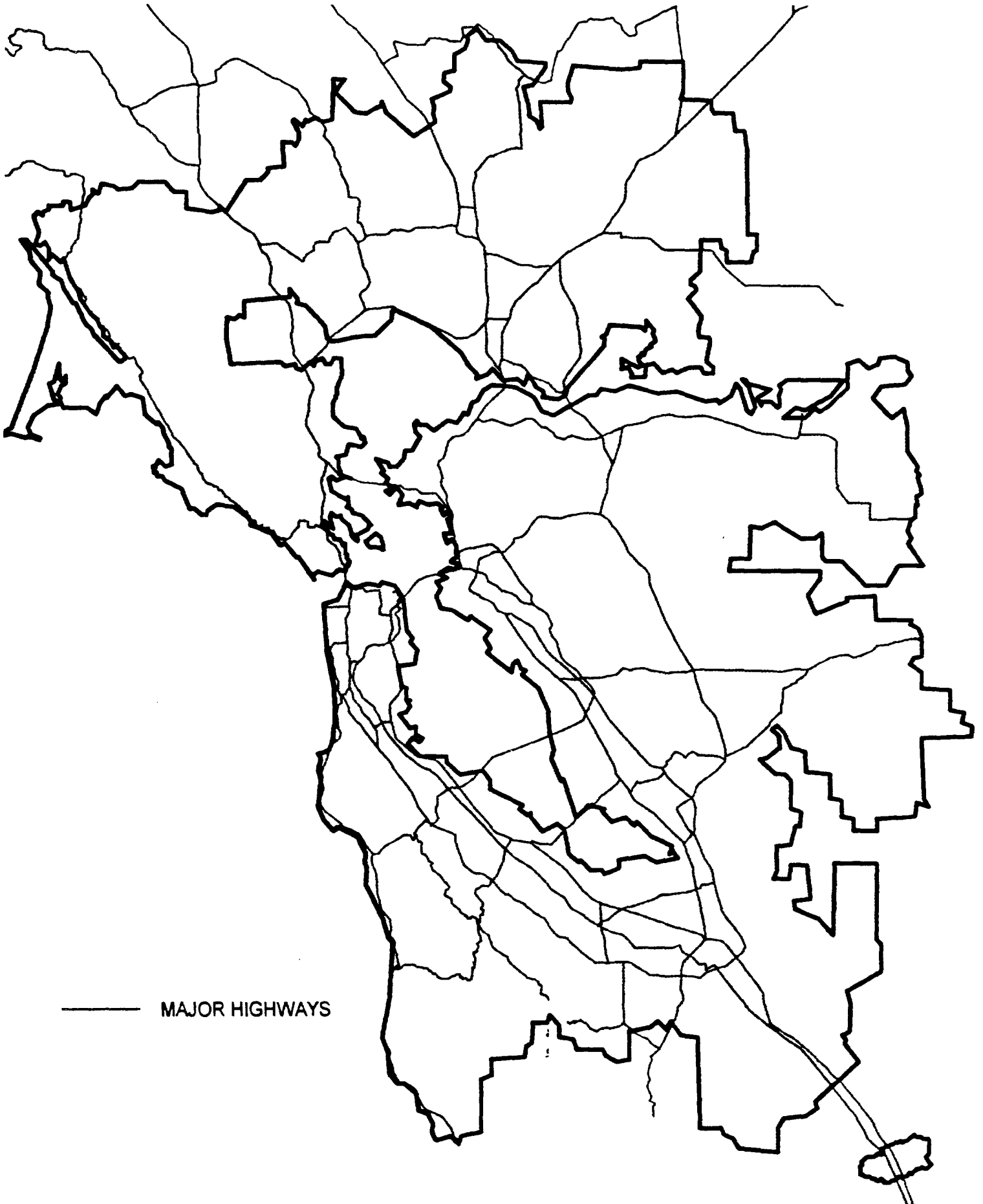
CAH 6/10/94

Pacific Bell's Pending VDT 214 Applications

(W-P-C 6913-6916)

- The Commission's goals (i.e. competitive video choice, infrastructure development and diversity of video services) will be served by prompt review and approval of these Applications
 - » Our implementation of VDT is designed to create an economically viable offering, with telephony ratepayers being insulated from financial risk
- Upon commercial deployment, VDT will create and stimulate competition in the video marketplace
 - » The Commission's decisions on cost allocation issues will have a direct and significant influence on the prices end-users will be charged for video programming delivered over VDT platforms
- Pacific Bell will not construct or install any VDT-specific facilities until its 214s are approved by the Commission
- Pacific Bell is committed to providing advanced telecommunications services to all California customers
 - » Our initial deployment will serve a representative mix of Californians

SAN FRANCISCO BAY AREA



—— MAJOR HIGHWAYS

BAY AREA COMPETITOR FACILITIES

